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Internal audit and oversight

United Nations Office for Project Services accountability framework and oversight policy

Summary

In accordance with decision 2008/5, adopted by the Executive Board at its annual session in 2007, the Executive Director is pleased to submit the draft United Nations Office for Project Services (UNOPS) accountability framework and oversight policy for consideration by the Executive Board.

In accordance with the guidance provided by the Executive Board, the Executive Director wishes to stress the close linkages among the UNOPS accountability framework, the business strategy, the administrative policies and procedures relating to oversight and personal accountability, and measures taken to improve measurement of results and impact, monitoring and transparency in reporting.

Elements of a decision

The Executive Board may wish to endorse the UNOPS accountability framework and oversight policies set out in the present report.

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Introduction

1. The present accountability framework and oversight policy was drafted pursuant to Executive Board decision 2008/5. The framework seeks to strengthen UNOPS accountability, risk management and assurance processes. While establishing basic principles, the policy also defines specific terms and concepts (as requested in decision 2008/5), including accountability and transparency, as well as modalities of disclosure and confidentiality in the management of UNOPS operational activities. The accountability framework describes the roles and responsibilities of the various parties and the resulting synergies that would enhance UNOPS oversight mechanisms.

2. The UNOPS accountability framework has been developed taking into account General Assembly resolution 59/250 on the triennial comprehensive policy review of operational activities for development of the United Nations system; resolution 60/1 on the 2005 World Summit Outcome; resolution 61/245 on the comprehensive review of governance and oversight in the United Nations and UNOPS, programmes and specialized agencies; and other pertinent decisions and resolutions regarding the strengthening of accountability and ethics in the United Nations system.

I. Accountability developments in UNOPS

3. The compliance function has traditionally been associated with legislative and financial accountability. The scope of oversight has grown over time to address controls regarding aspects of risk, relevance, effectiveness, efficiency and impact of operations. Oversight comprises a set of activities in which internal and external bodies assure the Executive Director, the Executive Board and other concerned parties that reliable, cost-effective systems of internal controls are in place, ensuring that:

(a) UNOPS activities are in accordance with its legislative mandate and the policies adopted by the General Assembly, the Economic and Social Council and the Executive Board (organizational accountability);

(b) The funds provided to UNOPS are fully accounted for and used in compliance with project agreements (financial accountability);

(c) UNOPS activities are conducted in the most efficient and effective manner, and programme overlaps, duplications and inefficient use of resources are avoided (operational accountability); and

(d) Staff and other officials adhere to standards of professionalism and ethics (individual accountability).

4. During both the 2006-2007 biennium and the current biennium, UNOPS has made significant progress in the areas of accountability, assurance, risk management, internal controls and fraud prevention.

5. UNOPS has established an independent strategy and audit advisory committee to provide independent, senior-level advice to the Executive Director regarding strategic, business and, audit objectives of the organization. The Committee held its first meeting in January 2008 The terms of reference for the Strategy and Audit Advisory Committee are presented as annex 1 to the present report, on the Executive Board web page.

6. The introduction of a charter for the UNOPS Internal Audit Office has ensured greater accountability and better assurance at UNOPS. The charter of the Internal

Audit Office is presented as annex 2 to the present report, on the Executive Board web page. To strengthen risk management capacity, UNOPS has adopted a risk-based audit work plan targeting strategic, high-risk areas for audit; introduced computer-based audit techniques; and attained greater standardization and harmonization of work practices. The internal audit work plan for 2008 is presented as annex 3 to the present report, on the Executive Board web page.

7. UNOPS has developed anti-fraud initiatives and has adopted the whistleblower policy of the United Nations (a policy against retaliation for reporting wrongdoing). Specifically, UNOPS has implemented a fraud hotline, which allows direct access to the UNOPS Ethics Officer via a secure email address or a secure telephone number. The fraud hotline and code of ethics are presented as annex 4 to the present report, on the Executive Board web page. The Internal Audit Office has also adopted the International Standards for the Professional Practice of Internal Auditing, in accordance with the professional practices framework prescribed by the Institute of Internal Auditors.

8. UNOPS recently implemented a comprehensive 'balanced scorecard' programme. The balanced scorecard is a performance-based, strategic management tool that provides stakeholders with a comprehensive indication of how the organization is progressing towards its strategic goals. The balanced scorecard helps define the actions needed to achieve desired results and fulfil the overarching strategic objective and vision of the organization. Specifically, the balanced scorecard focuses on achieving ten major corporate strategic performance objectives that are all essential to achieving the accountability framework goals.

9. UNOPS has updated and strengthened its internal control framework (presented as annex 5 to the present report, on the Executive Board web page). The purpose of the internal control framework is to inform every UNOPS staff member of the internal controls instituted at all levels of authority to secure proper performance of his or her duties. Ancillary to the internal control framework is the new, comprehensive delegation of authority for finance officers policy, which clearly details the authorities granted to those UNOPS staff who are required to approve and be held responsible for financial transactions and decisions made within the UNOPS system. The finance delegation of authority for UNOPS is presented as annex 6 to the present report on the Executive Board web page

10. UNOPS has formalized and implemented its cost recovery and pricing policy. The organizational directive on the cost recovery and client pricing policy is presented as annex 7 to the present report on the Executive Board web page. The policy sets out strategic directives on full-cost recovery relevant to the role of UNOPS as a self-financing entity that requires a specific level of reserves to ensure its viability. The policy contains directives regarding pricing UNOPS services, and accounting for costs appropriately with clients and stakeholders. The policy also contains a sound business strategy for remaining competitive in the marketplace and industry occupied by UNOPS. Adherence to this policy is essential for UNOPS management to maintain accountability for costs and ensure that the organization continues to be financially healthy and well managed.

11. UNOPS has procured various business insurance policies as an integral part of its comprehensive risk management, presented as annex 7 to the present report, on the Executive Board web page. This important initiative helps protect UNOPS from catastrophic losses using types of coverage unique to the United Nations system and vital to UNOPS, given the complex nature of the UNOPS business environment. The policies have a retroactive effect (covering the preceding three years) and protect UNOPS against future risks. The key policies are professional liability insurance

(otherwise known as errors and omissions or professional malpractice insurance); directors' and officers' liability insurance; bankers blanket bond fidelity/crime insurance; and an umbrella commercial general liability policy. Collectively, these policies help mitigate the highest potential risks faced by UNOPS in terms of business interruption, crime or litigation from clients and contractors, and ensure prudent fiduciary responsibility and care on the part of UNOPS leadership.

12. UNOPS has completed its comprehensive information and communications technology strategy for 2008-2012, which covers all aspects of risk mitigation, cost-effective technology investments and information security, including email and other communication methods. The strategy, presented as annex 8 to the present report, on the Executive Board web page, encompasses cutting-edge technology needs along with business process objectives aligned with the UNOPS strategic plan and best practices.

13. UNOPS has introduced an individual contractor agreement, an essential tool for UNOPS business operations. In essence the agreement helps to streamline the hiring process, providing a mechanism to recruit necessary human resources faster, for a limited duration, and with specific scopes of work relevant to UNOPS needs at the programme level and at headquarters. The individual contractor agreement is more flexible than previous contract modalities, enabling UNOPS to act faster, increase competitiveness and shift some of the risks normally associated with hiring regular staff to the individual contractor. The organizational directive concerning the individual contractor agreement is presented as annex 9 to the present report, on the Executive Board web page.

14. Two cornerstones of accountability for UNOPS activities are its staff performance review system and its contract performance review system. UNOPS has in place a comprehensive performance and results assessment programme, and will introduce a contractor performance review policy in 2008. Together, these important performance review tools allow qualitative and quantitative evaluation of UNOPS staff output, ensuring that all UNOPS programmes and contracts meet high standards for clients and stakeholders.

15. The UNOPS accountability framework presented below has been prepared in light of the background, objectives, initiatives and goals outlined above.

II. UNOPS accountability framework

A. Definitions

16. For the purpose of the UNOPS accountability framework, the following definitions will apply:

(a) *Assurance process* means an objective examination of evidence for the purpose of providing an independent and objective assessment on risk management, control or governance processes for the organization. Reasonable assurance means an acceptable and satisfactory level of confidence under given considerations of costs, benefits and risks. The assurance process alone, even when performed with due professional care, does not guarantee that all significant risks will be identified.

(b) *Accountability* means the obligation to demonstrate that work has been conducted in accordance with agreed rules and standards and to report fairly and accurately on performance results vis-à-vis mandated roles and/or plans.

It thus refers to the process whereby UNOPS and its personnel are held responsible for their decisions and actions, including their stewardship of UNOPS; fairness in all aspects of performance, in accordance with agreed rules and standards; and fair and accurate reporting on performance results vis-à-vis mandated roles and/or plans.

(c) *Business unit* means any operation or office that is led by management. These units typically consist of UNOPS headquarters, UNOPS regional offices and UNOPS operations centres;

(d) *Confidential information* means:

(i) Documents intended for internal purposes only;

(ii) Privileged information, such as legal advice and correspondence with external legal advisers; it includes any information, the disclosure of which might prejudice an investigation or any legal or regulatory proceedings, or subject the UNOPS to an undue risk of litigation;

(iii) Information that, if disclosed, would, in the view of UNOPS, seriously undermine the policy dialogue with Member States or implementing partners;

(iv) Information that, if disclosed, could violate the law, or prove a threat to the national security of a Member State or to the personal security or privacy of an individual;

(v) Information in the possession of UNOPS that was not created by UNOPS and that has been identified by its originator as being sensitive and confidential, or that the originator has formally requested be released restrictively;

(vi) Information related to procurement processes, including pre-qualification information submitted by prospective bidders, tenders, proposals or price quotations (other than the total contract price), or records of deliberative processes, financial, business or proprietary information of private entities received by UNOPS, unless permission is given by those private entities to release that information;

(e) *Control activities* mean those policies and procedures that are established and implemented to ensure that necessary internal controls are carried out effectively;

(f) *Independence* means the necessary conditions of integrity and freedom from interference in determining the scope, performing the functions and communicating the findings of internal audit, evaluation and investigation activities; any independent individual involved in such activities should have an impartial, unbiased attitude and avoid conflict of interest;

(g) *Internal control* means any action taken by UNOPS management, the Executive Board and other relevant parties to enhance risk management and increase the likelihood that established objectives and goals are achieved;

(h) *Management* means the individuals who control, lead and direct UNOPS or who are delegated the authority to do so;

(i) *Oversight* means the general process that refers to the review, monitoring, evaluation and supervision of UNOPS programmes, activities and policy implementation to ensure organizational, financial, operational and ethical accountability;

(j) *Transparency* means the flow of timely and reliable financial, strategic, and programmatic information about the use of UNOPS resources and about the activities of UNOPS.

B. Purpose and scope

17. The purpose of the accountability framework is to ensure good governance, consider relevant best practices, create the necessary environment of accountability and transparency in UNOPS, and ensure that UNOPS business operations are carried out effectively through continuous improvement.

18. The scope of the accountability framework is shaped by the following principles of good governance:

(a) The activities of the organization are fully in accordance with its legislative framework;

(b) Funds provided to the organization are fully accounted for and are in compliance with project and programme agreements;

(c) The activities of the organization are conducted in the most efficient and effective manner, and duplication and inefficient use of resources are avoided;

(d) The staff and all other officials of the organization adhere to the highest standards of professionalism, integrity and ethics;

(e) Investments in oversight mechanisms are based on analysis of the cost of accepting the underlying risks versus the benefit of mitigating those risks.

C. Principles of the UNOPS Accountability Framework

Application of principles

19. UNOPS execution of oversight functions includes three essential elements, which together comprise a comprehensive system that provides reasonable assurance that UNOPS activities are efficient and effective. They are:

(a) An accountability framework (containing all of the policy documents contained or referred to in the present document) that holds management and staff responsible for the efficiency and effectiveness of UNOPS programmes;

(b) A comprehensive, rigorous and transparent assurance system, with specific reference to the activities noted in the UNOPS internal audit charter and annual work plan, and to the charter and the activities of UNOPS external auditors in the form of the United Nations Board of Auditors charter; and

(c) UNOPS business oversight processes, such as inspections, periodic on-site reviews, programmatic monitoring, surveys and audits that review and evaluate programmes, management systems, and the validity of the on-site assurance system; these oversight processes are performed via management visits, special reviews or audits by the Internal Audit Unit, as may be prescribed by the Executive Director or a senior manager.

Legal framework

20. All oversight activities must comply strictly with applicable regulations and rules. The responsibility of oversight is granted on an individual basis and requires delegated authorities to adhere to the relevant portions of the controlling legal instruments. In the case of any inconsistency or ambiguity between them, the instruments must be applied in the following order of priority:

(a) Article 100 of the Charter of the United Nations;

(b) Staff Regulations and Rules of the United Nations and UNOPS;

(c) Financial Regulations and Rules of the United Nations and UNOPS; currently regulations applied "mutatis mutandis" from UNDP regulations of 1998;

(d) UNOPS accountability framework.

Delegation of authority

21. As set forth in the UNOPS financial regulations and rules (UNDP regulations of 1998, mutatis mutandis), presented as annex 10 to the present report, on the Executive Board web page, the Executive Director is accountable to the Secretary-General through the Management Coordination Committee and the Executive Board for all phases and aspects of UNOPS financial activities. The UNOPS financial regulations and rules provide that the Executive Director may further delegate authority to UNOPS personnel. UNOPS is examining the existing regulations closely and will update them as necessary.

D. Roles and responsibilities

22. The oversight roles and responsibilities encompass those related to assurance and accountability. Effective oversight results from coordinating the respective roles and responsibilities of: management; the Internal Audit Office; the Strategy and Audit Advisory Committee; the Ethics Officer; the Executive Board and the Management Coordination Committee; the United Nations Board of Auditors; the United Nations Joint Inspection Unit; the Advisory Committee on Administrative and Budgetary Questions; and the Fifth Committee. Furthermore, the following UNOPS internal committees provide assurance and accountability in specific areas: the Appointment and Selections Panel (organizational directive presented as annex 11 to the present report, on the Executive Board web page); the Appointment and Selections Board (organizational directive presented as annex 12 to the present report, on the Executive Board web page); and the headquarters Contracts and Procurement Committee (terms of reference presented as annex 13 to the present report, on the Executive Board web page.

23. A process of assurance examines and evaluates the adequacy and effectiveness of the bodies responsible for oversight. That process includes the following activities:

(a) Internal audits, investigations and independent evaluations examine and measure the adequacy and effectiveness of UNOPS processes, structure and controls, providing reasonable assurance that these are functioning as intended;

(b) The Strategy and Audit Advisory Committee assists the Executive Director in fulfilling his oversight responsibilities in accordance with relevant best practices and industry standards;

(c) The United Nations Board of Auditors undertakes independent audits of UNOPS and assists the Executive Director and Director of Finance in working towards certification of UNOPS financial statements.

Management

24. Management is responsible for putting in place the system of governance and risk management; the internal control framework; the measurement of performance; and the evaluation of results and impact. It is also responsible for communicating results in a reliable, timely, accurate, open and transparent manner.

25. Management is also responsible for the implementation of the UNOPS internal control framework and other applicable policies related to oversight activities. Management is accountable for exercising its oversight role in the particular areas of

its responsibility. As part of its evaluation responsibilities, UNOPS management plans, organizes and directs the performance of actions to provide reliable information on the achievement of goals, outcomes, outputs and results and their impact on intended beneficiaries.

Internal Audit Office

26. The oversight roles and responsibilities of the Internal Audit Office, including the use of relevant professional standards, are set forth in the Internal Audit Office charter approved by the UNOPS Executive Director. In addition to internal auditing, the oversight services provided by the Internal Audit Office include fraud prevention and detection, investigation, thematic audits and reviews, and advisory services. The Internal Audit Office frequently reports to the Executive Director on its internal audit activities and reports annually to the Executive Board.

27. Internal auditing includes examination and evaluation of the adequacy and effectiveness of UNOPS governance processes, risk management processes, internal controls structure and performance in carrying out assigned responsibilities. These activities are carried out in order to provide reasonable assurance to the Executive Director, the Strategy and Audit Advisory Committee and the Executive Board that the processes are functioning as intended to enable UNOPS to achieve its stated goals and objectives.

28. The scope of fraud prevention and detection includes examination and evaluation of the effectiveness of UNOPS internal controls to prevent and detect fraud. The Internal Audit Office conducts investigations into reports of violations of applicable regulations, rules and administrative or policy directives (unless otherwise directed by the Executive Director and the Strategic Audit Advisory Committee, in cases of conflict of interest).

Strategy and Audit Advisory Committee

29. The Strategy and Audit Advisory Committee was established to provide the Executive Director with external, senior-level advice regarding the strategic, business and audit objectives of the organization. The Committee has an advisory role and is not a governance body; see terms of reference in annex 1, on the Executive Board web page.

Ethics Officer

30. The Ethics Officer is appointed by and reports to the Executive Director of UNOPS. The Executive Director will notify the Executive Board of important issues raised by the Ethics Officer as they may arise. Activities are undertaken in support of the United Nations code of ethics and towards coordination of ethics standards and policies.

31. The UNOPS Ethics Officer recognizes the authority of the Chief Ethics Officer of the United Nations. The Ethics Officer:

(a) Formulates, reviews and disseminates policies and providing guidance on ethical issues in accordance with the common standards of conduct prescribed for all United Nations staff members;

(b) Provides guidance to management to ensure that UNOPS policies, procedures and practices reinforce and promote the ethical standards called for under the United Nations Charter;

(c) Raises UNOPS staff awareness about expected ethical standards and behaviour in support of organizational oversight and human resources

development policies, strategies and programmes; this includes ensuring that UNOPS staff are aware of whistleblowing policies and the existence of the fraud-reporting mechanisms;

(d) Provides staff with confidential advice on ethical behaviour and standards;

(e) Receives and reviews, in accordance with the UNOPS protection policy against retaliation, complaints of retaliation and referring cases to the relevant units of UNOPS for further investigation where necessary; and

(f) Bears responsibility for the strategic development and implementation of the financial disclosure programme now in place (see annex 15, on the Executive Board web page).

The Executive Board

32. The functions of the Executive Board, as delineated in resolution 48/162, are:

(a) To implement the policies formulated by the General Assembly and the coordination and guidance received from the Economic and Social Council;

(b) To receive information from and give guidance to the Executive Director of UNOPS on the work of the organization;

(c) To ensure that the activities and operational strategies of UNOPS are consistent with the overall policy guidance set forth by the General Assembly and the Economic and Social Council, in accordance with their respective responsibilities as set out in the Charter of the United Nations; and

(d) To approve administrative and financial plans and budgets;

United Nations Board of Auditors

33. The oversight roles and responsibilities of the United Nations Board of Auditors are set forth in General Assembly resolution 74 (1) of 7 December 1946 and in the rules and procedures adopted by the Board of Auditors at its 49th regular session on 30 June-1 July 2005, amended at its 35th special session on 7 December 2005. The mandate of the United Nations Board of Auditors is further defined in Article VII and annex of the regulations and rules of the United Nations that apply mutatis mutandis to UNOPS, as set forth in UNOPS financial regulations and rules.

Joint Inspection Unit

34. The oversight roles and responsibilities of the Joint Inspection Unit are set forth in General Assembly resolutions 2150 (XXI) of 4 November 1966 and 2360 (XXII) of 19 December 1967, extended thereafter under General Assembly resolutions 2735 (XXV) A of 17 December 1970 and 2924 (XXVII) B of 24 November 1972.

35. By its resolution 31/192 of 22 December 1976, the General Assembly decided to establish the Joint Inspection Unit as a standing subsidiary organ and approved the statute of the Unit, with effect from 1 January 1978. In its resolution 60/258, the General Assembly reaffirmed the role of the Unit as the only independent, external oversight body of the United Nations system mandated to conduct system-wide evaluations, inspections and investigations.

E. Attributes of effective oversight

36. The foundation for effective oversight is the commitment of UNOPS staff at all levels to the effectiveness of the accountability framework. That implies a commitment to the orderly, ethical, economical, efficient and effective conduct inherent in the UNOPS management philosophy, operating style and organizational

culture, as defined by the Executive Board and the UNOPS Executive Director.

Risk assessment and management

37. Management is responsible for continuously monitoring and reviewing changes in the business environment; progress and constraints in achieving results; financial management and reporting; audit findings; and findings from major reviews and evaluations. This analysis should be summarized into a risk assessment, which will be consistently updated to include new information on the likelihood of risks materializing.

Continuous improvement and lessons learned

38. Oversight processes help to identify ways to make business processes more efficient and effective by improving performance, including in the context of coherence within the United Nations system, in accordance with General Assembly resolution 59/250.

Responsibility and accountability for results

39. All UNOPS personnel are accountable for achieving defined results within their respective areas of work. When UNOPS is entrusted by other entities to implement activities on their behalf, UNOPS assumes responsibility for those activities and for achieving expected results by signing a contractual agreement. Programme managers entering into such contracts are responsible for complying with the terms of their agreements and for providing adequate assurances that all contracts are implemented in an effective manner.

Single audit principle

40. As set forth in the report of the Secretary-General dated 10 November 1993 (A/48/587), the United Nations Board of Auditors is the only entity responsible for auditing UNOPS. The United Nations Board of Auditors retains the exclusive right to carry out an external audit of the accounts and financial statements of UNOPS. If special reviews are required, the Executive Board, through UNOPS, should request the external auditors to carry out specific examinations and issue separate reports on the results. The cost of such a special review will be borne by the requesting authority.

Financial disclosure

41. In accordance with General Assembly resolution 60/238 of 15 February 2006 on human resources management, and with the UNOPS staff regulations 1.2 (m) and 1.2 (n) and UNOPS organizational directive 23, UNOPS staff members meeting the criteria for disclosure have an obligation to file the proper financial declaration annually and, if applicable, to file the financial disclosure statement.

Transparency

42. The transparency and independence of the UNOPS Internal Audit Office and the Strategic Audit Advisory Committee are enhanced by their ability to communicate directly with the UNOPS Executive Director. The Executive Director may request that the Head of the UNOPS Internal Audit Office occasionally have access to the Executive Board, the Strategy and Audit Advisory Committee, the United Nations Board of Auditors and any other entity having any oversight or governing function in relation with UNOPS.

43. The Director of the Internal Audit Office presents an annual report on internal audit activities transmitted through the Executive Director to the Executive Board.

Management is responsible for ensuring that management responses are prepared for each specific internal and external audit recommendation. Management follows up on the status of the implementation on a regular basis. In addition, management systematically reviews and addresses systemic issues that arise from audit findings using a risk-based approach.

44. Management provides a management response to the annual internal audit report presented to the Executive Board. The management response includes an update on the implementation of internal audit recommendations. The Executive Director may report on the progress made against the objectives in the balanced scorecard, in conjunction with the UNOPS strategic plan, and may address any important issues in this context.

45. In accordance with the recommendation of the United Nations System Chief Executives Board for Coordination, internal audit reports may be made available to a Member State upon submission of a written request to the Executive Director of UNOPS. If confidential information is included in the report, the Executive Director shall remove it and replace it with the notation "Confidential information removed in accordance with the accountability framework of UNOPS approved by the Executive Board."

46. Notwithstanding the above dispositions, in exceptional circumstances the Head of the Internal Audit Office may bring reports to the attention of the Executive Board, taking into account the standards and code of ethics contained in the Professional Practices Framework of the Institute of Internal Auditors.

Resources required for effective organizational accountability

47. The annual report on internal audit activities presented by the Head of the Internal Audit Office to the Executive Board will include a section on resources available and required for the implementation of the present accountability framework. The framework is not intended to conflict with the objectives of the various UNOPS standard operating procedures, organizational directives, guidance notes, financial regulations and rules, committee mandates, strategy documents, or other corporate objectives, many of which are referenced in the present accountability framework. UNOPS management and staff are encouraged to report any such conflicts to the Director of Finance, the Deputy Executive Director, or the Ethics Officer, preferably in writing, so that the conflict can be addressed and relevant actions taken to remedy the situation.

F. Approval of the policy

48. The present policy takes effect on the day on which it is approved by the Executive Board, with no retroactive effect.